

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2021-361-G – ORDER NO. _____

June __, 2022

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| IN RE: | Application of Dominion Energy South Carolina, Incorporated for the Approval of New Natural Gas Energy Efficiency Programs and Notice of Intent to Seek Net Lost Revenue under the Natural Gas Rate Stabilization Act (Application Does Not Include a Request for a Rate Increase) |) | |
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PROPOSED ORDER

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) pursuant to a request made by Dominion Energy South Carolina, Inc. (“DESC” or the “Company”), under the authority of S.C. Code Ann. §§ 58-37-20, 58-5-400 *et seq.*, and S.C. Code Ann. Regs. 103-819, 103-823, for (1) the authority to create four new demand reduction and energy efficiency programs (“Demand Side Management” or “DSM”) for the Company’s residential and commercial natural gas customers (collectively, the “Programs”); (2) authority to modify, expand, amend, or add any measure or program proposed in the Docket without requiring prior Commission approval to do so; and (3) authority to create a new Rider to Retail Gas Rates – Demand Side Management Component (“Gas DSM Rider”) for the recovery of the program costs arising from the new natural gas DSM program and the shared savings incentive (“SSI”) of 9.9%. The Company also is providing notice of intent to recover the net lost revenues resulting from the

proposed DSM programs through the annual Natural Gas Rate Stabilization Act (“RSA”) proceeding under S.C. Code Ann. § 58-5-400, *et seq.*

II. PROCEDURAL HISTORY

A. Application and Notice

DESC filed its Application in this proceeding on November 23, 2021. By letter dated December 20, 2021, the Clerk’s Office of the Commission instructed the Company to publish a Notice of Filing and Public Hearing (“Notice”) in newspapers of general circulation in the areas affected by the Programs by January 11, 2022. The letter also instructed the Company to furnish the Notice to its customers by U.S. Mail via bill inserts or electronically to customers who have agreed to receive notice electronically on or before February 11, 2022. The Notice indicated the nature of the proceeding and described how interested persons could participate. On January 12, 2022, the Company filed with the Commission affidavits of timely publication of the Notice in newspapers of general circulation. On February 15, 2022, the Company filed an affidavit that the Notice was furnished to its customers by U.S. Mail via bill inserts or electronically to customers who have agreed to receive notice electronically by February 11, 2022, in accordance with the instructions set forth in the November 23, 2021 letter from the Clerk’s Office.

B. Intervenor

Timely Petitions to Intervene were received from the Southern Alliance for Clean Energy (“SACE”), South Carolina Coastal Conservation League (“CCL”) (collectively, “SACE/CCL”), and the South Carolina Department of Consumer Affairs (“DCA”). The Petitions to Intervene were granted by Chief Hearing Officer Directive in Order Nos. 2022-18-H and 2022-9H, respectively. The petitions to intervene of SACE/CCL and the DCA were not opposed, and no other parties

sought to intervene in this proceeding. The South Carolina Office of Regulatory Staff (“ORS”) is automatically a party to this proceeding pursuant to S.C. Code Ann. § 58-4-10(B).

C. Hearing

The Commission held the evidentiary merits hearing on this matter on Monday, May 2, 2022, with the Honorable Justin T. Williams presiding. DESC was represented at the hearing by Michael J. Anzelmo, Esquire; Jason A. Richardson, Esquire; K. Chad Burgess, Esquire; and Matthew W. Gissendanner, Esquire. SACE/CCL was represented by Kate Lee Mixson, Esquire and Emma C. Clancy, Esquire. The DCA was represented by Roger P. Hall, Esquire and Connor J. Parker, Esquire. ORS was represented by Christopher M. Huber, Esquire and Nicole M. Hair, Esquire.

Through their personal appearances, DESC presented the prefiled direct testimony and exhibits and rebuttal testimony of Sheryl K. Shelton, James Herndon, and Jatón R. Smith. Through her personal appearance, Witness Shelton provided a correction to the second column of a chart located on page 15, line 10 of her direct testimony entitled “Preliminary Natural Gas EE Programs Annual Savings (therms).” The line for Commercial Gas Equipment Incentives in the second column, entitled “Sector,” was corrected to say “Com.” instead of “Res.” (Tr. p. 10, ll. 14-19). Witness Smith also made a correction to his Exhibit No. ____ (JRS-1). DESC filed Witness Shelton’s corrected direct testimony and Corrected Exhibit No. ____ (JRS-1) on May 6, 2022. The prefiled direct testimony and exhibits, with corrections, and rebuttal testimony of DESC’s witnesses was entered into the record at the evidentiary hearing.

Through his virtual personal appearance, SACE/CCL presented and entered into the record the prefiled direct testimony and exhibits and surrebuttal testimony of Jim Grevatt.¹

Through his virtual personal appearance, the DCA presented the prefiled direct testimony, exhibit and appendix and surrebuttal testimony of David Dismukes.² The following corrections and updates were made to Witness Dismukes' testimony and exhibits during the merits hearing.

1. On page 4, lines 4 through 5 of his direct testimony, the number 8.05% was corrected to 8.14%, and Order No. 2018-678 to Order No. 2021-663. (Tr. p. 209, ll. 18-23).
2. On page 17, lines 18 to 19 of his direct testimony, the number 8.05% was corrected to 8.14%, and reference to Docket No. 2018-6-G was corrected to Docket No. 2021-6-G). (Tr. P. 210, ll. 5-7).
3. On page 19, lines 4 to 5 of his direct testimony, the number 8.05% was corrected to 8.14%, and reference to Order no. 2018-678 was corrected to Order No. 2021-663.
4. A typographical error was corrected in Witness Dismukes' exhibit DED-1 to correct the year of the source report supporting the exhibit from 2009 to 2019.

¹ Witness Grevatt was qualified as an expert in energy-efficiency program development and management, including natural gas energy-efficiency programs and programs for low-income households. (Tr. p. 174, l. 21-p. 175, l. 10).

² Witness Dismukes was qualified as an expert in utility economics and ratemaking issues, including matters related to energy-efficiency program evaluation, cost-benefit and cost-effectiveness analyses, and incentive designs. (Tr. p. 18, l. 18-p. 213, l. 8). The DCA noted that Witness Dismukes was not being submitted as an expert in the statutory interpretation of S.C. Code Ann. § 58-37-20. (Tr. p. 212, ll. 22-25).

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The DCA filed Witness Dismukes' corrected direct testimony, exhibit and appendix on May 3, 2022. The prefiled direct testimony, exhibit and appendix, with corrections, and rebuttal testimony of Witness Dismukes was entered into the record at the evidentiary hearing.

Through his personal appearance, ORS presented and entered into the record the prefiled direct testimony and exhibit of O'Neil O. Morgan.³

III. STATUTORY STANDARDS AND REQUIRED FINDINGS

By statute, the Commission is vested with the power and jurisdiction to supervise and regulate the rates and service of every public utility in this State and to fix just and reasonable standards, classifications, regulations, practices, and measurements of service to be furnished, imposed or observed, and followed by every public utility in this State. S.C. Code Ann. § 58-3-140(A). S.C. Code Ann. § 58-37-20 authorizes the Commission to “adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs.” The statute further provides that if the Commission chooses to adopt such procedures, the procedures must:

- Provide incentives and cost recovery for energy suppliers and distributors that invest in energy supply and end-use technologies that are cost-effective, environmentally acceptable, and reduce energy consumption or demand;
- Allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified DSM programs sufficient to make these programs at least as financially attractive as construction of new generating facilities;

³ Witness Morgan was qualified as an expert in energy efficiency and demand side management program development and implementation. (Tr. p. 224, ll. 4-14).

- Require the Commission to establish rates and charges that ensure that the net income of an electrical utility or gas utility regulated by the Commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

S.C. Code Ann. § 58-37-20.

Under the RSA, a public utility providing natural gas distribution service may elect to have the terms of the RSA apply to its rates and charges for gas distribution service.⁴ In its Application, DESC proposed to recover the net lost revenues resulting from the proposed DSM programs through the Company's annual RSA proceeding. (Application, p. 6).

IV. REVIEW OF THE EVIDENCE PRESENTED AT THE MERITS HEARING AND EVIDENTIARY CONCLUSIONS

A. The Company's Proposed Programs

The Company's Position

The Company began developing the four (4) proposed natural gas DSM programs for residential and commercial customers in spring of 2021. (Tr. p. 16.4, ll. 18-20). In implementing the Programs, the Company hopes to create a portfolio of cost-effective DSM programs for residential and commercial natural gas customers, so those customers can receive similar benefits of the DSM programs currently available to electric customers. (Tr. p. 16.4, ll. 10-12). In prefiled

⁴ S.C. Code Ann. § 58-5-410. ("Upon receipt of notice of the election, the commission shall proceed to make the findings and establish the ongoing procedures required for adjustments in base rates to be made under this article. In carrying out the procedures established by this article with respect to such an election, the commission shall rely upon and utilize the approved rates, charges, revenues, expenses, capital structure, returns and other matters established in the public utility's most recent general rate proceeding pursuant to Section 58-5-240 ...").

testimony and during the hearing, DESC Witness Shelton provided an overview of the framework for the Programs:

1. Expansion of the Company's Residential EnergyWise Store to include product offerings for its natural gas customers.
2. Creation of new application(s) to offer Residential High Efficiency Gas Equipment rebates to natural gas customers.
3. Creation of new application(s) to offer Commercial High Efficiency Gas Equipment rebates to natural gas customers.
4. Expansion of the Company's Neighborhood Energy Efficiency Program ("NEEP") to accommodate DESC's income-qualified natural gas customers.

(Tr. p. 16.10, l. 5 – p. 16.12, l. 21).

The Company does not propose to offer the Programs to its Large General Service Class of customers, including Industrial customers.

As one program offered in the suite, the Company will revise eligibility in the EnergyWise Savings Store to include product offerings allowing online discounts for residential natural gas customers that are not currently available. Specifically, customers will create an online account and then access an instant rebate for the purchase of energy-efficient home products and measures that relate directly to reducing gas usage. Both natural gas only and customers who are both natural gas and electric customers of DESC will be permitted to purchase gas efficiency measures from the EnergyWise Savings Store. Witness Shelton testified that the Company intends to leverage existing infrastructure and the contractor responsible for implementation of the Company's other DSM programs. Witness Shelton testified that the first proposed program passes both the Total

Resource Cost (“TRC”) test as well as the Utility Cost Test (“UCT”). (Tr. p. 16.10, l. 8 – p. 16.11, l. 8).

In her testimony, Witness Shelton explained the second program will offer rebates to residential service customers that purchase eligible gas furnaces, gas water heaters, gas tankless water heaters, and gas direct vent fireplaces. Once the customer purchases the eligible energy efficient equipment and submits a rebate application to the Company, the rebate is available. The Company will leverage existing infrastructure and implementation contractor. Witness Shelton testified this program also passes the TRC test and UCT. (Tr. p. 16.11, ll. 9-19).

As a corollary, the Commercial High Efficiency Gas Equipment program will provide rebates for small to medium-sized businesses that invest in energy efficient natural gas equipment. Specifically, small business customers will receive equipment rebates for space and water heating, while medium-sized business customers will receive equipment rebates for purchasing commercial cooking equipment. The Company will leverage the existing infrastructure and implementation contractor, and this program will be administered alongside the EnergyWise for your Business program that is within DESC’s electric DSM portfolio. (Tr. p. 16.11, l. 20 – 16.12, l. 13). Witness Shelton testified that this program, as designed, passes both the TRC test and the UCT. (Tr. p. 16.12, ll. 12-13).

Finally, the last proposed program would expand the NEEP to DESC’s income-qualified gas-only customers and provide energy efficiency education, an in-home energy assessment, and direct installation of low-cost natural gas efficiency measures delivered via a neighborhood door-to-door sweep approach. Like the other proposed programs, the Company will leverage the existing infrastructure and implementation contractor. (Tr. p. 16.12, ll. 14-21). Witness Shelton testified that although the NEEP program does not pass the TRC test or the UCT as a standalone

program, the total portfolio is cost effective under both tests. (Tr. p. 16.13, ll. 3-5). As Witness Smith noted in her prefiled direct testimony, the Company estimates the costs associated with the Programs would have an initial impact within the range of \$0.15-\$0.20 on the monthly bill of a residential natural gas customer using 100 therms. (Tr. p. 40.11, ll. 14-16).

In implementing and operating the Programs, the Company proposes to amortize the program costs over a period of three (3) years. (Tr. p. 16.16, ll. 16-17). This is the same amortization period the Commission approved in 2019 for DESC's electric DSM programs. (Tr. p. 16.16, ll. 12-14). DESC Witness Smith testified that this approach would minimize the amount of costs that the Company would accumulate as a regulatory asset which reduces carrying costs compared to longer amortization periods, would help counteract the inherent lag in rate recovery of program costs, and provide customers and stakeholders with clarity of program costs. (Tr. p. 40.6, l. 21 – p. 40.7, l. 16). Additionally, the Company proposes to apply its weighted average cost of debt to unrecovered gas DSM balances. (Tr. p. 38, ll. 5-7). Witness Smith testified this is the method the Commission approved in 2019 for calculating carrying costs for the Company's electric DSM programs and that it is in accordance with the terms of S.C. Code Ann. § 58-27-20 providing that energy suppliers shall be allowed "to recover costs and obtain a reasonable rate of return on their investment" (Tr. p. 40.7, l. 20 – p. 40.8, l. 2). The Company's weighted average cost of debt as of December 31, 2021, is 5.62%. (Tr. p. 40.8, ll. 2-3).

ORS's Position

ORS Witness Morgan provided testimony addressing ORS's review of the proposed Programs. In comparison with other natural gas DSM programs offered by other utilities in both South Carolina and other jurisdictions, the Programs proposed by DESC are consistent in terms of measures and associated rebates offered to customers participating in the Programs. (Tr. pp. 230.3

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- 230.4). The other utilities studied included Piedmont Natural Gas Company, Inc., Washington Gas, Atlanta Gas Light, and Public Service Company of North Carolina, which is now part of Virginia-based Dominion Energy, Inc. (Tr. p. 230.4, ll. 1-7).

Witness Morgan testified that ORS reviewed the Company's forecasted therm savings and the supporting information provided by the Company and found the forecasts to be reasonable in terms of the forecasted participation and the natural gas DSM measures that will be eligible for rebates through the Programs. (Tr. p. 230.4, l. 20 – p. 230.5, l. 1). Witness Morgan also testified ORS reviewed the Company's forecasted costs and supporting information and found them to be reasonable and consistent with industry standards based on the Company's customer base and DSM measures being offered as part of the proposed Programs. (Tr. p. 230.5, ll. 5-8). In addition, ORS reviewed the Company's cost-effectiveness test results for each Program and the overall portfolio as well as the supporting calculations and documentation provided by the Company and found the Company's cost-effectiveness test results to be reasonable based on the potential measure savings and associated costs. (Tr. p. 230.7, ll. 6-10). The potential measure savings and associated costs align with therm saving values and methodology used in industry standard terms of reference manuals. (Tr. p. 230.7, ll. 10-12). While the NEEP does not pass cost effectiveness tests as a standalone program, in electric DSM program portfolios, the Commission has approved income-qualified programs that are not cost-effective, which was based on a settlement agreement in which parties agreed that low-income programs may not pass the TRC test, and such results should not prevent the implementation of the program. (Tr. p. 230.7, ll. 16-20). ORS does not object to the Company's proposed method for recovery of the projected costs to implement the Programs. (Tr. p. 230.6, ll. 1-3). ORS's opinion is the Programs generally comply with S.C. Code

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Ann. § 58-37-20. (Tr. p. 230.8, ll. 1-3). ORS does disagree with the SSI the Company proposes in the Application. (Tr. p. 230.6, ll. 7-8).

With respect to DESC's request to be able to make future amendments or modifications to the Programs without first seeking Commission approval, Witness Morgan testified ORS does not object to this, as it is consistent with previous approvals from the Commission on electric DSM programs. (Tr. p. 230.9, ll. 3-8). Any such modifications or amendments should be timely reported to the Commission, and the Company should be required to seek Commission approval prior to terminating any program. *Id.* If the Company's proposed Programs are approved by the Commission, ORS will have an opportunity to review the Company's activities on an annual basis through the annual reporting mechanism. (Tr. p. 230.9, ll. 11-13). ORS also will continue to review the Company's RSA monitoring report that the Company files with the Commission on or before June 15th for each twelve-month period ending on March 31st. (Tr. p. 230.9, ll. 16-18). In addition, ORS recommends any approval of the Programs be for a five (5) year period, the Company be required to file an application if it wishes to continue the Programs, and that a comprehensive review of the proposed Programs be completed at that time so a decision can be made on whether to continue, modify, or discontinue the Programs. (Tr. p. 230.9, ll. 19-23).

SACE/CCL's Position

SACE/CCL Witness Grevatt recommended the Commission reject the Residential High Efficiency Gas Equipment Rebates and Commercial High Efficiency Rebates programs without prejudice. (Tr. p. 185.5, ll. 1-2). He also recommended the Commission direct DESC to include the following as part of any future pre-filed program proposal:

- a. The findings of market research to determine a baseline for current market share of any proposed high efficiency gas equipment;

- b. Estimated net-to-gross ratios for any proposed high efficiency gas equipment and updated cost-effectiveness results based on net savings;
- [c]. For any proposed high efficiency gas equipment for which there are high efficiency electric alternatives available in the market, provide the results of a life-cycle cost and carbon emissions analysis comparing the proposed gas equipment to high efficiency electric alternatives. For example, any application proposing rebates for high efficiency gas furnaces should include a life cycle cost analysis comparing the costs of a gas furnace-electric central air conditioner system to a high efficiency electric heat pump.

(Tr. p. 185.5, ll. 2-15). Witness Grevatt testified that although the rebate programs for residential and commercial customers are common among gas utilities, some national indicators suggest that at least some fraction of the gas furnace sales that take place in South Carolina are high efficiency even in the absence of rebate programs offered by utilities. (Tr. p. 185.12, l. 16 – p. 185.13, l. 10). DESC had not conducted market research to determine the penetration of high efficiency equipment in its territory, which Witness Grevatt characterized as “key to determining the cost-effectiveness of the proposed initiative.” (Tr. p. 185.14, ll. 3-5).

Witness Grevatt criticized the Company’s calculations of cost-effectiveness using gross savings as opposed to net savings, which would exclude those free-rider customers that would purchase high efficiency equipment even in the absence of a rebate program. (Tr. p. 185.14 – 185.15). Witness Grevatt expressed concern that if net savings are used and are less than gross savings, the Programs might fail the TRC test. (Tr. p. 185.15, ll. 8-15). He testified the *California Standard Practice Manual: Economic Analysis of Demand-side Programs and Projects* states that for the TRC Test, “avoided supply costs should be calculated using net program savings, savings net of changes in energy use that would have happened in the absence of the program.” (Tr. p. 187.3, ll. 4-9).

Lastly, Witness Grevatt testified that high efficiency electric heat pumps may have lower lifetime installation and operating costs, and noted the Company has not conducted any analysis comparing the installation and operating costs of gas equipment measures versus electric equipment. (Tr. p. 185.16, ll. 8-14). He further testified heat pumps will almost certainly have lower carbon emissions. (Tr. p. 185.16, l. 14). In response to the question of why the Commission should consider whether heat pumps or gas furnaces are in customers' interest, Witness Grevatt responded that if customers would be better served, and save more money, by installing a heat pump instead of a gas furnace, then the Company should not be providing rebates that steer them towards a gas furnace. (Tr. p. 185.17, ll. 1-3).

Witness Grevatt recommended the Commission approve the expansion of the EnergyWise store and approve the NEEP proposal as filed, but direct the Company to conduct further analysis of opportunities to cost-effectively implement comprehensive measures in NEEP on a dual-fuel gas and electric basis and file the results of this analysis with the Commission in 180 days, along with any proposed expansion of dual-fuel measures and programs. (Tr. p. 185.11, l. 23 – p. 185.12, l. 5).

DESC Witness Herndon, Vice President in the Strategy and Planning Practice within Resource Innovations, Inc. ("Resource Innovations"), provided rebuttal testimony on the issue of benefit cost testing. (Tr. p. 28.1, ll. 9-11). Witness Herndon led a team which assisted the Company in the development of the Programs proposed in this docket, including conducting the analysis, developing and designing the proposed portfolio, and analyzing the cost-effectiveness of the Programs. (Tr. p. 28.4, ll. 11-12). Witness Herndon testified that conducting primary research on the current market share of efficient equipment is not a necessary component of designing effective DSM programs. (Tr. p. 34.3, ll. 4-13). Witness Herndon also refuted the contention that market

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research is “key” to determining cost effectiveness, stating that current penetration of high efficiency equipment does not directly impact cost-effectiveness calculations. (Tr. p. 34.4, ll. 8-15).

Witness Herndon testified in rebuttal testimony that the cost effectiveness tests used gross savings. (Tr. p. 34.7, ll. 4-10). He testified for the cost-effectiveness analysis, the net savings were initially considered to be roughly equivalent to the gross savings. (Tr. p. 34.7, ll. 9-10). This is because the Residential Gas Equipment Program and Commercial Gas Equipment Program are new programs, and natural gas energy efficiency (“EE”) programs are new to the Company’s customers. (Tr. 34.7, ll. 10-12). Actual net savings values for each program will be determined through the planned Evaluation, Measurement and Verification (“EM&V”) activities. (Tr. p. 34.7, ll. 12-14). Due to the concern Witness Grevatt raised about the TRC test results, a sensitivity analysis was conducted assuming a net-to-gross ratio of 0.8, which reduced gross savings by 20%; while the benefits were reduced, both rebate programs continue to pass the TRC test and UCT in the sensitivity analysis. (Tr. p. 34.7, ll. 14-19).). On cross examination, Witness Herndon testified he was familiar with the California Standard Practice Manual and that the 0.8 is not a made-up number, but rather it was what California had at one point as a default value. (Tr. p. 58, ll. 1-10). In addition, he looked at a scorecard the American Council for an Energy-Efficient Economy (“ACEEE”) does every year, and it made assumptions on gross-to-net for gas programs overall of approximately 0.87 or 0.88 so there was a basis for selecting 0.8 for the analysis. (Tr. p. 58, l. 21 – p. 59, l. 4).

With respect to the use of gross savings, ORS Witness Morgan testified that the Programs proposed are not novel programs. (Tr. pp. 232-38). Rather, they are well-established programs for a number of utility companies. *Id.* In addition, the energy savings proposed are well-established

and found in nationally recognized terms of reference manuals. *Id.* Further, free-ridership can be examined during the EM&V phase. *Id.* Witness Morgan also testified that an American Gas Association report on natural gas energy-efficiency programs mentions over 124 utilities within North America that have implemented the programs proposed by the Company. (Tr. p. 242, ll. 5-10). Consequently, these are well-established programs, and there are nationally recognized terms of reference manuals which provide the potential energy savings for the measures proposed. (Tr. p. 242, ll. 10-15). When asked if the types of programs proposed are tried and true and produce results, Witness Morgan responded that is correct. (Tr. p. 242, ll. 16-20).

DESC Witness Shelton, in rebuttal, testified with respect the two (2) High Efficiency Gas Equipment programs, that “[i]nstead of accepting these industry standard programs, Witness Grevatt proposes that the Company conduct needless, expensive, and time-consuming analyses that are seemingly designed to redirect DESC’s *gas* customers towards *electric* heat pumps.” (Tr. p. 22.2, ll. 17-20). She further testified this recommendation “does nothing to actually help the Company’s natural gas customers accomplish their energy efficiency goals.” (Tr. p. 22.2, l. 20 – p. 22.3, l. 3).

In response to Witness Grevatt’s recommendations regarding the NEEP low-income program, Witness Shelton testified the program was designed to be an expansion of the current electric NEEP offering and measures, thus allowing DESC’s natural gas customers similar access to the free installation of energy efficiency measures as the Company’s electric customers and that Witness Grevatt does not propose useful recommendations or improvements to the NEEP. (Tr. p. 22.3, ll. 12-16). Rather, his proposals “fundamentally change the Company’s proposed offering and measures—changes that would only delay program implementation and add unnecessary complexity to the administration of the program.” (Tr. p. 22.3, ll. 16-19). She testified through

experience and customer feedback, the Company learned there is an inverse relationship between the length of a NEEP home visit and success of scheduling that visit and that Witness Grevatt's recommendations would lengthen the average visit time. (Tr. p. 22.3, l. 20 – p. 22.4, l. 9). She also discussed various issues with adding insulation and air sealing measures to the NEEP. (Tr. p. 22.4, l. 10 – p. 22.5, l. 9).

DCA's Position

While not challenging approval of the Programs themselves, the DCA challenged the structure of the proposed DSM Rider as it pertains to the SSI.

B. Shared Savings Incentive

Company's Position in Application and Direct Testimony

S.C. Code Ann. § 58-37-20 provides that if procedures are adopted to encourage utilities to invest in cost-effective energy efficient technologies and energy conservation programs, the procedures must "provide incentives." In its Application and direct testimony, DESC proposes a SSI of 9.9%, which DESC Witness Smith testified would allow the Company to maintain consistency across business units as 9.9% also is what the Commission approved in the 2019 Order for the Company's suite of electric DSM programs. (Tr. p. 40.8, ll. 16-21). To calculate SSI, DESC Witness Shelton testified that the Company uses the customers' net benefits as determined by the TRC test to calculate the SSI projection, which is then trued-up to reflect the actual customer net benefits based on the evaluated savings, as determined by the Company's annual third-party EM&V report. (Tr. p. 16.17, ll. 12-16). In addition to being consistent with other business units, Witness Shelton testified that the 9.9% SSI "sufficiently incentivized the Company to explore the addition of these gas DSM programs and seek approval from the Commission to implement these programs." (Tr. p. 16.18, ll. 5-7). Utilizing the 9.9%, DESC projects that the annual incentive will

be \$5,375 for residential and commercial gas customer classes in Program Years 1 through 5. (Tr. p. 16.18, ll. 11-12).

ORS's Position

ORS disagreed with the Company's proposed SSI rate of 9.9% and recommended the SSI be set equal to the Return on Equity ("ROE") that will be established in DESC's upcoming natural gas general rate case proceeding which will be filed no later than April 1, 2023. (Tr. p. 230.6, ll. 9-12). The Company's last natural gas general rate case was in 2005 (Docket No. 2005-113-G) and thus it has been seventeen (17) years since the Company's ROE was determined as part of a natural gas general rate case. (Tr. p. 230.6, ll. 8-10). While the 9.9% SSI proposed by the Company matches the SSI of 9.9% for the electric DSM programs established in 2019, subsequently, in 2021, a ROE of 9.5% was set in the Company's electric general rate case. (Tr. p. 230.6, ll. 15-17). Once the ROE is established in the natural gas general rate case, Witness Morgan testified that a true-up could be authorized, if required. (Tr. p. 230.6, ll. 19-21).

In response to Commissioner questions, Witness Morgan testified the primary reason for ORS's recommendation with respect to the SSI is it is similar to what is used for DESC's electric DSM programs. (Tr. p. 241, ll. 5-15). He also testified that the Commission has discretion in determining an appropriate incentive. (Tr. p. 241, ll. 9-10). When asked by Commissioner Caston about the rate of return of 7.09% in DESC's December 31, 2021 quarterly filing and whether 7.09% is realistic since it is a verified number, Witness Morgan testified "the Commission here has full discretion to select a number within those range[s]." (Tr. p. 243, ll. 2-23). To remain consistent, ORS recommended using ROE. (Tr. p. 243, l. 24-p. 244, l. 1).

DESC Witness Shelton testified in rebuttal that SSI and ROE are not equivalent and are designed to compensate the utility for different things. (Tr. p. 22.10, ll. 2-3). Her understanding is

ROE is designed to allow the utility to attract capital from investors. (Tr. p. 22.10, ll. 5-7). She testified “[t]hat consideration is not relevant to DSM. The SSI operates to incent the utility to create and offer DSM programs and is wholly distinct from the ROE. In sum, the legislature created the SSI to be separate from the Company’s approved ROE.” (Tr. p. 22.10, ll. 7-10). She further testified “[t]he Company is willing to accept the recommendation of Witness Morgan to set the SSI for these gas DSM programs at the ROE as determined in its upcoming general gas rate case in so far as the Commission’s order does not equate SSI to ROE on a going forward basis.” (Tr. p. 22.10, ll. 13-16). The Company proposed to set the SSI at 9.9% and true it up to the ROE set in the 2023 natural gas rate case as part of its 2024 annual update. (Tr. p. 22.10, ll. 17-18). Witness Smith also testified DESC accepts Witness Morgan’s recommendation and described the implementation and true up in further detail. (Tr. p. 44.2, l. 9 - p. 44.3, l. 16).

DCA’s Position

DCA Witness Dismukes, Consulting Economist with the Acadian Consulting Group, recommended the Commission reject the Company’s proposed SSI. (Tr. p. 217.1, ll. 7-10; Tr. p. 217.2, l. 20). According to Witness Dismukes, not only did the Company not provide adequate justification for why an incentive in this case, given its limited nature, is necessary to pursue cost-effective DSM, but the structure of the incentive would shift all performance risks onto ratepayers. (Tr. p. 217.7, ll. 10-14). Witness Dismukes also avers that the recovery of DSM expenses through a rider such as that proposed by the Company provides near contemporaneous recovery of costs, and is sufficient to make investments in DSM programs at least as financially attractive as similarly-situated supply-side resources, thereby making an additional incentive unnecessary. (Tr. p. 217.9, l. 18 – p. 217.10, l. 2). Witness Dismukes also opposed the SSI because, as he asserted in testimony, the SSI is based upon estimates of DSM savings and not actual observed savings;

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therefore, all performance risks will be shifted onto ratepayers because the Company will be guaranteed an incentive regardless of the actual savings resulting from the Programs. (Tr. p. 217.11, l. 21 – p. 217.12, l. 2). As an alternative recommendation, Witness Dismukes suggested that if the Commission were to find that S.C. Code Ann. § 58-37-20 requires an incentive for the Company, the Commission should incentivize performance through the mechanism by tying future performance incentives to the percentage of estimated energy savings included in the Company's application that are realized in future years. (Tr. p. 217.18, ll. 10-16). Therefore, if the Company were only to reduce customer use through the Programs by 80% of the reduction estimated, DESC would only receive 80% of the authorized SSI percentage. (Tr. p. 217.18, ll. 16-20). If the Commission were to authorize an SSI, Witness Dismukes recommended the SSI percentage be set at the Company's current overall allowed rate of return of 8.14% as established in Order No. 2021-663 in Docket No. 2021-6-G. (Tr. p. 217.19, ll. 3-5).

In prefiled rebuttal testimony, DESC Witness Shelton contended that, contrary to Witness Dismukes' assertions, the Commission does not have the discretion to not provide for an incentive, as the Programs proposed by DESC meet the statutory criteria of S.C. Code Ann. § 58-37-20. (Tr. p. 22.8, l. 15 – p. 22.9, l. 3). Witness Shelton also testified that a performance-based SSI would penalize the Company twice, once through a lower initial incentive and again through a reduction in the percentage of recovery. (Tr. p. 22.9, ll. 6-9). Witness Dismukes disagreed with the double-penalty in prefiled surrebuttal, and suggested other intangible benefits, such as goodwill, will inure to the Company as a result of the Programs. (Tr. pp. 219.6-219.7). Lastly, Witness Dismukes also pointed out the RSA will reimburse the Company for any reductions to the earnings it would have otherwise received as a result of the Programs. (Tr. p. 219.5, ll. 13-15).

C. The Company's Proposal to Seek Net Lost Revenue Through the Annual RSA Proceeding

While the Company will seek recovery of the program costs and the SSI through the proposed Gas DSM Rider, DESC's Application noted that the Company intends to seek the recovery of net lost revenues resulting from the Programs through the annual RSA proceeding. (Application, p. 6). In her prefiled direct testimony, DESC Witness Smith testified that net lost revenues will reflect the reduction in demand charges and therm sales as a result of customer participation in the Programs, exclusive of the reductions that would have occurred in the absence of the Programs. (Tr. p. 40.9, ll. 9-11). The new rates established by the annual RSA proceeding will reflect the net lost revenues contribution to margin revenue. (Tr. p. 40.9, ll. 13-15). In the event that the Company chooses not to elect to exercise the terms of the RSA statute in the future following a natural gas general rate case, the Company's Application noted that an adjustment may be included in the future to the Gas DSM Rider to recover the net lost revenues resulting from the Programs. (Tr. p. 40.10, ll. 1-5). Witness Smith also testified that not only does utilizing the annual RSA proceeding ensure actual net lost revenues resulting from the Programs during the RSA test year are captured in the Company's annual adjustment to its gas rate schedules, but because the RSA allows utilities to reset base rates annually, DESC would not need to include an estimate for net lost revenue in the Gas DSM Rider unless it elected to not have the terms of the RSA apply. (Tr. p. 40.10, ll. 8-16). In rebuttal, Witness Smith testified:

DESC will naturally capture the amount of net lost revenues for each RSA test year as a component of the approved revenue requirement. Due to implementation of Gas DSM programs, DESC will experience lower therm sales which will result in lower margin revenue. When considering net lost revenues on a standalone basis, the lower margin revenue from lower therm sales will result in a lower earned ROE, which will in turn lead to an increase in the revenue requirement for the annual RSA proceeding. The billing determinants, or actual

therm sales, that are used to calculate the new rates will include lower therms, which will produce a higher rate due to the increase in the revenue requirement. The end result will be a higher rate to recover or capture the net lost revenues realized during the RSA test year. Therefore, DESC will not need to calculate or estimate and later true up the amount of net lost revenue to include as an adjustment in its annual RSA filings as recommended by Witness Grevatt. In other words, there will not need to be any pro forma adjustment for net lost revenues as part of the Company's RSA filing. The actual net lost revenue resulting from actual lower therm sales will inherently be included when rates reset during DESC's annual RSA proceedings. As such, there will be no risk of over-collection as mentioned by Witness Grevatt.

(Tr. p. 44.4, l. 13 – p. 44.5, l. 8).

Witness Smith testified DESC does not have a specific request relating to its net lost revenues, as the Company wishes to use this proceeding to notify the Commission of the Company's intent to seek recovery of its net lost revenues during its annual RSA proceedings. (Tr. p. 40.12, ll. 9-11).

Neither ORS Witness Morgan nor DCA Witness Dismukes objected to the Company's proposed mechanism for recovery of net lost revenues through the RSA. SACE/CCL Witness Grevatt raised some concerns in his direct but recommended the Commission approve the Company's proposal to address the net lost revenues from the Programs during the annual RSA proceeding and establish clear parameters for how net lost revenues should be addressed in the RSA in advance of the Company's next RSA filing to ensure transparency and address any over-collection risk that could inadvertently result from net lost revenue recovery. (Tr. p. 185.21, ll. 18-21).

D. Commission Finding

After careful consideration of the evidence presented, the Commission finds DESC's proposed suite of natural gas DSM programs represent an appropriate and reasonable approach for implementing natural gas DSM measures and comply with S.C. Code Ann. § 58-37-20. The

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Commission therefore finds the proposed suite of natural gas DSM programs should be and hereby is approved. The Commission carefully considered the recommendations made by SACE/CCL, including the additional studies they recommend for three of the four proposed Programs. Ultimately, the costs of any such studies may be passed onto customers, and the Commission concludes a sufficient record has not been presented to adopt the recommendations or order these additional studies.

Regarding the SSI, under S.C. Code Ann. § 58-37-20, an incentive must be provided if DSM procedures are approved. In determining an appropriate incentive, this Commission has considerable discretion. After careful consideration of the evidence and positions presented, the Commission sets the incentive at the ROE that will be established in DESC's upcoming natural gas general rate case to be filed no later than April 1, 2023. In the interim, the SSI will be set at 9.9% and trued up to the ROE set in the 2023 natural gas general rate case as part of DESC's 2024 annual update. This approach is consistent with Order No. 2019-880, which addressed the Company's suite of electric DSM programs and strikes an appropriate balance between achieving the intent of the statute and allowing the Company to recover an incentive while recognizing the currently-approved ROE for DESC is seventeen years-old, and will be updated upon conclusion of the upcoming natural gas general rate case next year. This decision is not precedent for equating a utility's DSM program SSI with ROE as they are not entirely equivalent.

DESC does not have a specific request relating to its net lost revenues, as the Company wishes to use this proceeding to notify the Commission of the Company's intent to seek recovery of its net lost revenues during its annual RSA proceedings.

V. FINDINGS OF FACT AND CONCLUSIONS OF LAW

For the reasons discussed above and after careful consideration of the evidence presented by all parties, the Commission concludes the Programs proposed in the Application, with the exception of the proposed SSI, are just, reasonable, and consistent with S.C. Code Ann. § 58-37-20. The Programs, therefore, are approved. With respect to the SSI, the Commission approves an SSI equal to the ROE to be established in DESC's upcoming natural gas general rate case proceeding to be filed no later than April 1, 2023. In the interim, the SSI will be set at 9.9% and trued up to the ROE determined in the 2023 natural gas general rate case as part of the 2024 annual update for natural gas DSM Programs.

VI. ORDERING CLAUSES

IT IS THEREFORE ORDERED THAT:

1. DESC's Application in this proceeding is approved as modified herein.
2. The tariff sheet submitted as Hearing Exhibit 3 and entitled "Rider to Gas Rates – Demand Side Management Component" is approved as the form to be used in setting rates in the next annual proceeding to update that rider.
3. DESC may recover through the rider presented in Hearing Exhibit 3 its costs incurred in providing DSM programs and an SSI of the net benefits of the DSM programs. The authorized percentage for the SSI will be set equal to the approved ROE determined in the Company's upcoming natural general rate case case to be filed no later than April 1, 2023. In the interim, the SSI will be set at 9.9% and trued up to the ROE set in the 2023 natural gas general rate case as part of the 2024 annual update for natural gas DSM Programs. Once the SSI is established through the ROE determined in the Company's upcoming natural gas general rate case, the tariff sheet submitted as Hearing Exhibit 3 and entitled

“Rider to Gas Rates – Demand Side Management Component” may be updated accordingly.

4. DSM program costs and the SSI shall be recorded on the Company’s books as a regulatory asset and amortized over a three-year period under the terms specified above.
5. The cost of capital that applies to unrecovered balances of DSM program costs shall be the Company’s weighted average cost of debt.
6. The Programs are approved for a five-year period. The Company is authorized to modify, amend, or add any measure or program to its suite of programs without the requirement of seeking prior Commission approval; however, the Company shall timely report such changes to the Commission, and include the information in the Company’s annual report to the Commission and ORS. Further, the Company shall seek Commission approval prior to terminating any program.
7. The following annual review process is approved. The Company’s annual Gas DSM program year will conclude on May 31st of each year, and the Company will file its annual update by July 31st of each year. The Company is directed to true up recovery of any shared savings incentive resulting from the actual experience of operating the DSM programs and recompute on an annual basis the required revenue for recovery through the rate rider and the resulting rates based on the preceding program year beginning on June 1 and ending on May 31 and reflect those revenue requirements in this annual report. ORS shall have until October 1st of each year to file its report and intervenors shall have until this date to file comments. The Commission’s review and ruling will take place during October of each year with rates effective with the first billing cycle of November each year.

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8. DESC shall provide the Commission with an updated clean version of the Rate Rider reflecting the Commission's determinations in this Order.
9. The Commission takes notice that DESC intends to seek recovery of net lost revenues resulting from the Programs during its annual RSA proceedings.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Justin T. Williams, Chairman

ATTEST:

Florence P. Belser, Vice-Chairman

(SEAL)